

Traverse Bay Area Intermediate School District

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2008

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Management's Discussion and Analysis For the Year Ended June 30, 2008

Our discussion and analysis of Traverse Bay Area Intermediate School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

The Traverse Bay Area Intermediate School District (TBAISD), one of Michigan's 57 ISDs, encompasses sixteen public school districts, four public school academies and fourteen private and parochial schools within Antrim, Benzie, Grand Traverse, Kalkaska and Leelanau counties. The District serves over 27,000 students and more than 2,200 educators. When ISDs were established in 1962, the name "Intermediate" School District was chosen to reflect their role as a link between local school districts and the Michigan Department of Education. As the scope and responsibility of schools grew, however; so did the role of the ISD, providing its local districts with those programs and services which are either too expensive or too extensive to be offered individually. TBAISD's mission, "Leading Lifetime Learning," reflects its commitment to providing continually expanding educational opportunities for all learners.

The largest and most well-known TBAISD services are those in Special Education and Career and Technical Education. However, Traverse Bay Area Intermediate School District also provides a wide range of specialized services through its General Education area. The Instructional Services team offers a variety of programs and services designed to support student achievement, meet state and federal legislative mandates, and enrich school programs throughout the five-county service area. The team provides leadership and expertise to teachers and administrators, connecting regional and site-based objectives to research-based programs, appropriate resources, and the highest standards of professional development.

Collaboration between local districts, citizens, human service agencies, area commerce, Northwestern Michigan College, in fact all aspects of the community, is becoming more important in the search for educational quality and cost effectiveness. TBAISD programs and services include: Special Education, Career and Technical Education, Professional Development, School Improvement, Data Management & Analysis, Instructional Services, Technology/Media, Business/Finance, Early Childhood, Grand Traverse Regional Math, Science and Technology Center, Online Learning, Career Preparation, Road Test Service, Human Resources & Administrative Services, Program Development, Adult Education and Collaborative Initiatives.

The District services a large population of special education students. At the basis of all education is the expectation that all students can and will achieve to the extent of their abilities. TBAISD is a state leader in developing special education programs that are cost effective and creating opportunities in which students can realize their full potential. To do this, TBAISD employs certified and trained specialists to serve students in the following disability areas: Autism Spectrum Disorder (AI), Early Childhood Development Delay (ECDD), Emotional Impairment (EI), Moderate Cognitive Impairment (MoCI), Severe Cognitive Impairment (SCI), Hearing Impairment (HI), Learning Disabilities (LD), Other Health Impairment (OHI), Physical Impairment (PI), Severe Multiple Impairment (SXI), Speech and Language Impairment (SLI), Visual Impairment (VI), and Deaf/Blind.

For students with greater special needs, TBA is not just a service, it is a school. Our center programs provide students with a more restrictive placement and the intensive help they need during the school year.

New Campus School is a day treatment program for Severely Emotionally Impaired students in kindergarten through twelfth grade. Academics combined with unique opportunities for personal and emotional growth contribute to the school's high rate of returning students to their regular schools.

The **Adult Work Center** is for students ages 16-26 who are Mild & Moderately, and Severely Cognitively Impaired, Severely Multiply Impaired, and with Autism. Students participate in community-based instruction, career exploration and job experiences to learn to live as independently as possible given their capabilities.

Cherry Knoll Children's Center offered programs for students ages 3 through 14 with various disabilities, the best possible start in Infant/Toddler and Preprimary programs.

Traverse Heights provides services for students with severe mental and cognitive impairments between 3 – 16 years of age.

Oak Park School houses self-contained classrooms for Autism Spectrum Disorder students.

In addition, TBA provides diagnostic and consulting services to local districts, transition planning and monitoring agency coordination, Continuous Improvement Monitoring System (CIMS), along with curriculum services that focus on assessment, school improvement and teacher training. TBAISD also supplies a variety of consultants to offer additional help to local schools providing services to children with special needs. TBAISD sponsors the Special Education Parent Advisory Council. SEPAC is made up of parents representing the local school districts and charter schools, who meet monthly to discuss special education issues and learn more about special education challenges.

Our **Career-Tech Center (CTC)** offers area 11th and 12th grade students 23 career-technical programs. Students may elect to attend the TBAISD Career-Tech Center for half of their school day. The CTC is widely recognized for program excellence. As more and more students recognize the value of career-technical education, the CTC works to design programs that not only meet the needs of students in the classroom but will lead them to success in future careers. Benefits of CTC programs are as follows:

- CTC programs combine academics with technical learning.
- Programs teach to national certification standards.
- Many programs are merged with Northwestern Michigan College allowing students to earn college credit while still in high school.

- CTC programs have advisory boards consisting of area business people that assure programs are using the latest methods and technology.
- Job shadowing and work experience is a part of many programs.
- Specially designed “Less-than-Class-Size” programs make it possible to meet students’ specific career goals.
- More than one-third of the students join one of six skill and leadership clubs at CTC, which consistently earn high state-wide ratings in occupational club competitions. There is also a student council and National Vocational-Technical Honor Society chapter at CTC.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: Management’s discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two types of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term*, as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the District in a *trustee* or *agent* capacity.
- *Proprietary funds* statements provide a record of activities that the District operated similar to a business, in that the District charges a fee to the user in order to recover costs associated with the program or activity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

Figure A-1

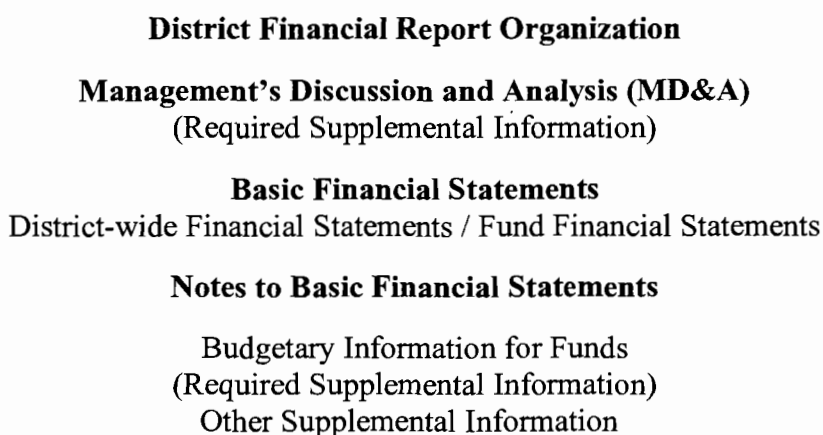


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of District-Wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Enterprise Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses such as Child Care Services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances	Statement of net assets Statement of revenues, expenses, and changes in net assets Statement of Cash Flow	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, TBA's funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

DISTRICT-WIDE STATEMENTS

The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities and the difference between the two, which is net assets. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, food service, and childcare. Unrestricted State Aid, property taxes, and state and federal grants finance most of these activities.

The two district-wide statements report the District's *net assets* and how they have changed. Examining net assets is one way to measure the District's financial health or *position*. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District's operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District's mission is not simply to generate profits, as may be the case for a commercial entity. Our mission is to enhance educational effectiveness. The District accomplishes this mission by pursuing continuous improvement in teaching and learning by offering a wide range of services.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District establishes other funds to help it control and manage money for particular purposes (e.g., Child Care Fund) or to show that it is properly using certain revenues (e.g., Food Services Fund).

The District has three types of funds:

Governmental Funds

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The District's major governmental funds are the General Education Fund, Michigan Works Fund, Special Education Fund and Vocational Education Fund.

Fiduciary Funds

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. The Student Activities Accounts and Memorial Funds are accounted for as fiduciary funds.

Proprietary Funds

The District operates a proprietary fund that is composed of an internal service fund. This fund accounts for services provided to the District's other funds. The District's self-funded dental and vision plans as well as its long-term leave liability are accounted for in this fund.

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets as of June 30, 2008 and June 30, 2007:

Table 1

	Governmental Activities 2006-2007 (in millions)	Governmental Activities 2007-2008 (in millions)	% Change
Assets			
Current and other assets	\$ 33.3	\$ 36.4	9.3
Capital assets	8.7	8.2	(5.8)
Total assets	42.0	44.6	6.2
Liabilities			
Current liabilities	8.4	9.4	12.0
Long-term liabilities	5.0	7.9	58.5
Total liabilities	13.4	17.3	29.1
Net Assets			
Invested in property and equipment - Net of related debt	8.7	8.2	(5.8)
Unrestricted	20.0	19.1	(5.0)
Total net assets	\$ 28.7	\$ 27.3	(4.9)

The above analysis focuses on the net assets (see Table 1). The District's net assets were \$27.3 million at June 30, 2008, as compared to \$28.7 million at June 30, 2007. The decrease in net assets is the result of many factors, the primary issue is the environmental remediation and compliance estimated costs. Capital assets, net of related debt, totaling \$8.2 million, compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets. The District has no debt related to the acquisition of capital assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$19.1 million) was unrestricted.

The \$19.1 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our non-capital liabilities (compensated absences for example); we would have \$19.1 million remaining.

The results of this year's operations for the District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2008.

Table 2

	Governmental Activities 2006-2007 (in millions)	Governmental Activities 2007-2008 (in millions)	% Change
Revenue			
Program Revenue			
Charges for services	\$ 1.0	\$ 0.7	(26.7)
Operating grants and contributions	21.4	22.9	6.7
General Revenue			
Property taxes	25.8	27.6	6.7
State School Aid-unrestricted	2.1	2.1	-
Other	4.4	4.5	3.6
Total revenues	<u>54.7</u>	<u>57.8</u>	<u>5.6</u>
Functions/Program Expenses			
Instruction	12.5	13.6	8.1
Support services	29.7	30.8	3.5
Community services	3.9	3.9	-
Other transactions	7.5	10.3	37.5
Depreciation (unallocated)	0.6	0.6	-
Total expenses	<u>54.2</u>	<u>59.3</u>	<u>9.2</u>
Change in net assets	<u>.5</u>	<u>(1.4)</u>	<u>(135.7)</u>
Net assets, beginning of year	<u>28.2</u>	<u>28.7</u>	<u>1.7</u>
Net assets, end of year	<u>28.7</u>	<u>27.3</u>	<u>(5.1)</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$59.3 million. Certain activities were partially funded from those who benefited from the programs (\$.7 million) or by other grants and contributions (\$22.9 million). We paid for the remaining “public benefit” portion of our governmental activities with \$27.6 million in taxes, \$2.1 million in State Aid, and other revenues including interest and general entitlements.

The District experienced a decrease in net assets of \$1,430,085 for 2007-2008 as compared to 2006-2007 levels. The key reasons for the decrease in net assets is the increase in estimated costs for environmental remediation and the demolition of Cherry Knoll Children’s Center.

The District's Funds

As noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at the funds assists individual readers when considering whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health. The District's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Education Fund, Michigan Works Fund, Special Education Fund and the Vocational Education Fund. All other funds are used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

General Fund -

The General Education Fund is the main operating fund of the District. Fund balance for this fund increased by \$208,681 primarily due to an increase in final grant revenues. The major source of revenue for the General Fund is State Aid which includes numerous grants, the majority of which flow to other districts.

Special Education Fund -

The major sources of revenue for the Special Education Fund are property taxes and grant funding. Special Education tax dollars are restricted to supporting special education expenditures only. During the year an increase in revenues was experienced due to increased Medicaid dollars and adjustments in State Aid Categorical funding. Fund balance for this fund increased by \$439,212.

Vocational Education Fund-

The major source of revenue for the Vocational Education Fund is the vocational millage. These funds are restricted to support vocational programming. This fund experienced an increase in fund balance of \$621,287 primarily due to cost containment in various programs.

Michigan Works Fund-

The major source of revenue for the Michigan Works Fund is federal grants. This fund received additional grant funds, primarily Michigan Prisoner Reentry, Dislocated Worker, Wagner-Feyser, and Trade Reform Act funding during the year that resulted in an increase in revenue as well as expenditures. Overall, the fund balance increased by \$59,684.

Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of federal and state programs, many of which are not finalized until well after the District's original budget is required to be adopted. Unfortunately, the State of Michigan continues to face severe economic hardship which has caused the finalization of the State budget to be delayed until well after school district budgets are formally adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. Traverse Bay Area Intermediate School District revised its budget three times during the fiscal year.

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to fund budgets were as follows:

The General Education Fund experienced an increase of \$208,681 in fund balance. Overall revenue was \$214,202 less than anticipated mainly due to State and federal grant deferrals. Actual expenditures were \$498,407 less than expected due primarily to unspent grant funds.

Special Education actual revenues were \$114,829 less than anticipated primarily due to deferrals in federal grant funds. The actual expenditures decreased by \$713,747 from the final budget mainly due to unfilled staff positions. The actual variance in revenues over expenditures was \$598,918 when compared to the final budget.

The Vocational Education Fund had anticipated that revenues would be greater than expenditures by \$265,708, but the actual difference was \$621,287. Actual revenues were \$24,707 less than the final budget mainly due to lower than expected local sources. Actual expenditures were \$380,286 less than the final budget primarily due to lower than expected instructional expenses.

Michigan Works Fund revenue reported a negative variance of \$209,742 which was mainly due to grant deferrals. Actual expenditures were \$179,968 below final budget due to lower than expected costs in adult education and community services. Actual revenues as compared to final expenditures were \$29,774 lower than expected in the final budget. The fund balance did increase by \$59,684 as a result of last year's operations.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the District had \$8.2 million invested in a broad range of capital assets including buildings, land, furniture, equipment and vehicles. This amount represents a decrease of \$502,516 from June 30, 2007. The net decrease was primarily due to a new asset appraisal and the demolition of Cherry Knoll Children's Center.

	June 30, 2007	June 30, 2008	% Change
Building and Improvements	\$ 14,851,537	\$ 14,185,205	(4.5)
Furniture and equipment	1,516,121	1,516,886	0.1
Buses and Vehicles	454,161	976,655	115.0
Land	108,543	108,543	-
Total Capital Assets	\$ 16,930,362	\$ 16,787,289	(0.8)
Less: Accumulated Depreciation	(8,225,454)	(8,584,897)	4.4
Total Capital Assets, Net	\$ 8,704,908	\$ 8,202,392	(5.8)

Calculations using percent of change will vary due to rounding of the percentages.

Debt

At June 30, 2008, the District had \$1,233,870 in School Improvement Bonds outstanding. This debt will be repaid using revenue provided by the State of Michigan specifically for this purpose. Should the State legislature fail to appropriate these funds, the School District is not liable for repayment of these bonds.

Other obligations include accumulated leave liability in the amount of \$801,093 owed to employees who have been employed by the District for specified periods of time and are qualified for retirement under the Michigan Public School Employees Retirement System.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Traverse Bay Area Intermediate School District in the future.

- The new retirement rate decreased to 16.54% as compared to the 2007-08 rate of 16.72%. The retirement rate continues to be an issue for all districts in Michigan.
- The District's health insurance premiums continue to rise. Classified, ancillary and administrative personnel were moved to a Health Savings Account plan in January, 2007 in an effort to reduce costs. Support personnel will be moving in January, 2009.
- The total allocation for Section 81 ISD General Operations State Aid funding is expected to be increased by 1% in the 2008-2009 school year. Due to the struggling economy, particularly the housing market, lower than normal growth in property tax revenue is anticipated. We continue to be concerned about the current economic conditions in the State.
- We are in the process of planning for the replacement of Cherry Knoll Children's Center.
- Remediation efforts continue at the Career-Tech Center site. The District is working with the Department of Environmental Quality and has submitted a new remedial action plan for approval.
- The public schools in Michigan have been able to participate in the Medicaid School Based Services and the Medicaid Outreach program since the early 1990's. This funding has allowed the District to provide a high level of service without creating a bill back situation to the local schools. Prior to the Medicaid program becoming available, the District would have to bill back to local school districts the cost of providing the necessary Special Education programs and services. During the 08-09 school year, a new billing methodology will be implemented in the State as well as many rule changes. The current moratorium allowing schools to continue to bill for Medicaid services expires on April 1, 2009. We are hopeful that the Medicaid program will continue into the future.

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Business Office, Traverse Bay Area Intermediate School District, 1101 Red Drive, PO Box 6020, Traverse City, MI 49696-6020, Fax (231) 922-6270, Telephone (231) 922-6200.

Traverse Bay Area Intermediate School District

June 30, 2008

BOARD OF EDUCATION

President	Joseph Fisher
Vice-President	Harry Voice
Secretary	Ranae McCauley
Treasurer	Marlene Bevan
Trustee	Jeanette Amidon
Trustee	James Scherrer
Trustee	Robert McCall

STAFF

Superintendent	Michael Hill
Assistant Superintendent Vocational and General Education	Karen Szcodronski
Assistant Superintendent Special Education	Marie Connors-Gilmore
Director of Human Resources, Finance and Administrative Services	Stephanie Murray
Chief Technology Officer	Michael Porter



Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Traverse Bay Area Intermediate School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Traverse Bay Area Intermediate School District** (the "School District"), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the School District's financial statements and, in our report dated September 14, 2007, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Traverse Bay Area Intermediate School District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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The management's discussion and analysis on pages i through xi and the budgetary comparison information on pages 30 through 33 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal awards and subrecipient schedule are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and are also not a required part of the basic financial statements of the School District. The combining non-major fund financial statements, the schedule of expenditures of Federal awards and subrecipient schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

September 29, 2008

Traverse Bay Area Intermediate School District

STATEMENT OF NET ASSETS

June 30, 2008

(With comparative totals for June 30, 2007)

	Governmental Activities	
	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,431,997	\$ 4,096,969
Investments	19,992,722	26,359,697
Due from other governments and other receivables	3,938,072	2,387,214
Prepays	545	481,645
Inventory	14,604	23,352
Total current assets	36,377,940	33,348,877
Non-current assets		
Capital assets, net of accumulated depreciation	8,202,392	8,704,908
Total assets	<u>\$ 44,580,332</u>	<u>\$ 42,053,785</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 2,005,036	\$ 1,389,162
Salaries payable and related expenses	3,932,842	4,129,944
Deferred revenue	1,531,193	1,219,328
Other current liabilities	1,798,396	1,611,764
Current portion of long-term debt	116,297	-
Total current liabilities	9,383,764	8,350,198
Non-current portion of long-term debt	1,918,666	1,995,600
Accrued environmental costs	6,000,000	3,000,000
Total liabilities	<u>17,302,430</u>	<u>13,345,798</u>
NET ASSETS		
Invested in capital assets, net of related debt	8,202,392	8,704,908
Unrestricted	19,075,510	20,003,079
Total net assets	<u>27,277,902</u>	<u>28,707,987</u>
Total liabilities and net assets	<u>\$ 44,580,332</u>	<u>\$ 42,053,785</u>

The accompanying notes are an integral part of these financial statements.

Traverse Bay Area Intermediate School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	
				2008	2007
Governmental activities					
Instruction expense	\$ 13,584,308	\$ 255,908	\$ 8,238,921	\$ (5,089,479)	\$ (5,121,909)
Support Services	30,764,827	178,352	4,119,461	(26,467,014)	(25,210,221)
Community Services	3,935,526	49,948	1,144,295	(2,741,283)	(2,677,851)
Child care	159,174	159,174	-	-	(49)
Food Service	90,647	92,007	-	1,360	155
Other transactions	9,719,923	-	9,383,216	(336,707)	1,799,999
Loss on disposal of capital assets	336,443	-	-	(336,443)	-
Depreciation-unallocated	665,085	-	-	(665,085)	(599,331)
Total governmental activities	<u>\$ 59,255,933</u>	<u>\$ 735,389</u>	<u>\$ 22,885,893</u>	<u>(35,634,651)</u>	<u>(31,809,207)</u>
General revenues					
Property taxes					
Levied for general purposes				1,859,756	1,755,679
Levied for Special Education				18,784,741	17,554,026
Levied for Vocational Education				6,907,261	6,513,070
State school aid - unrestricted				2,139,284	2,100,550
Grants and contributions not restricted to specific programs				56,655	15,993
Investment and other				4,456,869	4,341,374
Total general revenues				<u>34,204,566</u>	<u>32,280,692</u>
Change in net assets				(1,430,085)	471,485
Net assets, beginning of year				28,707,987	28,236,502
Net assets, end of year				<u>\$ 27,277,902</u>	<u>\$ 28,707,987</u>

-7- The accompanying notes are an integral part of these financial statements.

Traverse Bay Area Intermediate School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

(With comparative totals for June 30, 2007)

	General Education Fund	Michigan Works Fund	Special Education Fund	Vocational Education Fund	Capital Projects Fund - #2	Capital Projects Fund - #6	Other Governmental Funds	Total Governmental Funds	
								2008	2007
ASSETS									
Cash and cash equivalents	\$ 1,155,313	\$ 902,024	\$ 3,320,121	\$ 1,180,830	\$ 3,446,750	\$ 2,149,999	\$ 23,330	\$ 12,178,367	\$ 3,688,337
Investments	3,412,916	244,540	10,252,639	2,336,826	1,188,080	1,198,531	210	18,633,742	25,115,672
Due from other governments and other receivables	717,850	172,079	2,595,836	254,176	-	197,644	487	3,938,072	2,387,214
Due from other funds	-	-	25,000	250,000	-	-	-	275,000	-
Prepaid expenses	-	-	545	-	-	-	-	545	481,645
Inventories - supplies and materials	9,862	-	-	4,742	-	-	-	14,604	23,352
Total assets	\$ 5,295,941	\$ 1,318,643	\$ 16,194,141	\$ 4,026,574	\$ 4,634,830	\$ 3,546,174	\$ 24,027	\$ 35,040,330	\$ 31,696,220
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable, accrued payroll and related liabilities	\$ 1,291,914	\$ 305,136	\$ 3,595,094	\$ 610,318	\$ 79,769	\$ -	\$ 13,664	\$ 5,895,895	\$ 5,473,780
Due to other funds	-	-	-	-	25,000	250,000	-	275,000	-
Other accrued expenses	-	79,901	1,718,483	12	-	-	-	1,798,396	1,611,764
Deferred revenue	756,541	217,931	403,837	152,884	-	-	-	1,531,193	1,219,328
Total liabilities	2,048,455	602,968	5,717,414	763,214	104,769	250,000	13,664	9,500,484	8,304,872
FUND BALANCES									
Unreserved, reported in									
General Education Fund	3,237,624	-	-	-	-	-	-	3,237,624	3,023,455
Michigan Works Fund	-	672,829	-	-	-	-	-	672,829	655,991
Special Education Fund	-	-	10,476,727	-	-	-	-	10,476,727	7,556,770
Vocational Education Fund	-	-	-	3,258,618	-	-	-	3,258,618	2,633,171
Capital Projects Funds	-	-	-	-	4,530,061	3,296,174	7,373	7,833,608	7,015,449
School Food/Service Fund	-	-	-	-	-	-	2,990	2,990	1,515
Reserved, reported in									
General Education Fund	9,862	-	-	-	-	-	-	9,862	15,350
Michigan Works Fund	-	42,846	-	-	-	-	-	42,846	-
Special Education Fund	-	-	-	-	-	-	-	-	2,480,745
Vocational Education Fund	-	-	-	4,742	-	-	-	4,742	8,902
Total fund balances	3,247,486	715,675	10,476,727	3,263,360	4,530,061	3,296,174	10,363	25,539,846	23,391,348
Total liabilities and fund balances	\$ 5,295,941	\$ 1,318,643	\$ 16,194,141	\$ 4,026,574	\$ 4,634,830	\$ 3,546,174	\$ 24,027		
Reconciliation of Governmental Fund Balances to District-Wide Governmental Activities Net Assets									
Amounts reported for governmental activities in the statement of net assets are different because.									
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets for 2008 and 2007 is \$16,787,289 and \$16,930,362, respectively. The accumulated depreciation on the assets for 2008 and 2007 is \$8,584,897 and \$8,225,454, respectively.								8,202,392	8,704,908
Internal Service Fund net assets used in governmental activities are not financial resources of the governmental funds and, therefore, are not reported as assets in governmental funds.								871,824	931,602
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of									
Accrued environmental costs								(6,000,000)	(3,000,000)
Bonds payable								(1,233,870)	(1,233,870)
Accumulated leave liability								(102,290)	(86,001)
Total net assets - governmental activities								\$ 27,277,902	\$ 28,707,987

Traverse Bay Area Intermediate School District
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	General Education Fund	Michigan Works Fund	Special Education Fund	Vocational Education Fund	Capital Projects Fund - #2	Capital Projects Fund - #6	Other Governmental Funds	Total Governmental Funds	
								2008	2007
Revenues									
Property taxes	\$ 1,859,756	\$ -	\$ 18,784,741	\$ 6,907,261	\$ -	\$ -	\$ -	\$ 27,551,758	\$25,822,775
Interest	178,136	37,556	767,025	205,455	131,643	107,648	37,323	1,464,786	1,739,915
Intermediate sources	-	-	15,000	-	-	-	-	15,000	-
State program revenues	3,077,810	595,780	7,833,979	599,943	-	-	-	12,107,512	11,707,223
Federal program revenues	466,085	6,178,556	5,885,631	444,048	-	-	-	12,974,320	11,865,639
Other	525,738	236,713	2,023,536	346,392	-	-	260,452	3,392,831	3,102,526
Total revenues	6,107,525	7,048,605	35,309,912	8,503,099	131,643	107,648	297,775	57,506,207	54,238,078
Expenditures									
Instruction expense	174,399	2,176,243	7,760,325	3,351,351	-	-	-	13,462,318	12,446,268
Support Services	4,484,091	1,139,868	21,371,304	2,922,308	267,426	302,132	5,446	30,492,575	29,447,049
Community Services	36,742	3,758,904	108,292	30,122	-	-	-	3,934,060	3,876,933
Child care	-	-	-	-	-	-	159,174	159,174	286,896
Food Service	-	-	-	-	-	-	90,647	90,647	15,995
Transfers to other districts and other transactions	2,713,972	-	3,153,720	200,501	-	-	-	6,068,193	5,821,690
Capital outlay	281,750	15,351	401,278	439,652	12,711	-	-	1,150,742	1,371,175
Total expenditures	7,690,954	7,090,366	32,794,919	6,943,934	280,137	302,132	255,267	55,357,709	53,266,006
REVENUES OVER (UNDER) EXPENDITURES	(1,583,429)	(41,761)	2,514,993	1,559,165	(148,494)	(194,484)	42,508	2,148,498	972,072
Other financing sources (uses)									
Operating transfers in	2,352,542	351,465	208,967	-	1,400,000	611,196	-	4,924,170	4,163,273
Operating transfers out	(560,432)	(250,020)	(2,284,748)	(937,878)	-	-	(891,092)	(4,924,170)	(4,163,273)
Total other financing sources (uses)	1,792,110	101,445	(2,075,781)	(937,878)	1,400,000	611,196	(891,092)	-	-
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	208,681	59,684	439,212	621,287	1,251,506	416,712	(848,584)	2,148,498	972,072
Fund balance, beginning of year	3,038,805	655,991	10,037,515	2,642,073	3,278,555	2,879,462	858,947	23,391,348	22,419,276
Fund balance, end of year	<u>\$ 3,247,486</u>	<u>\$ 715,675</u>	<u>\$ 10,476,727</u>	<u>\$ 3,263,360</u>	<u>\$ 4,530,061</u>	<u>\$ 3,296,174</u>	<u>\$ 10,363</u>	<u>\$ 25,539,846</u>	<u>\$ 23,391,348</u>

Traverse Bay Area Intermediate School District

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	2008	2007
Total net change in fund balances - governmental funds	\$ 2,148,498	\$ 972,072
<p>Amounts reported for governmental activities in the statement of activities are different because capital outlays to purchase or build capital assets that meet the capitalized threshold are reported in the governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. These are the amounts of capital outlays and depreciation expense for the years ended June 30, 2008 and 2007.</p>		
Capital outlays	499,012	1,000,220
Depreciation expense	(665,085)	(599,331)
Disposal of capital assets	(336,443)	-
<p>In the statement of activities, certain operating expenses-compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). In 2008, amounts used were less than the amounts earned by \$16,289. In 2007, amounts used were less than the amounts earned by \$7,347.</p>		
	(16,289)	(7,347)
<p>Change in net assets in the Internal Service Fund, not reported in governmental fund statements.</p>		
	(59,778)	105,871
<p>Future estimated environmental expenditures are recognized currently in the statement of activities. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). \$3 million and \$1 million of future estimated environmental expenditures were recognized in 2008 and 2007, respectively.</p>		
	(3,000,000)	(1,000,000)
Change in net assets of governmental activities	\$ (1,430,085)	\$ 471,485

Traverse Bay Area Intermediate School District

STATEMENT OF NET ASSETS - INTERNAL SERVICE FUND

June 30, 2008

(With comparative totals for June 30, 2007)

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 253,630	\$ 408,632
Investments	1,358,980	1,244,025
Total assets	<u>\$ 1,612,610</u>	<u>\$ 1,652,657</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 41,983	\$ 45,326
Long-term liabilities	698,803	675,729
Total liabilities	740,786	721,055
NET ASSETS		
Unreserved, undesignated	871,824	931,602
Total liabilities and net assets	<u>\$ 1,612,610</u>	<u>\$ 1,652,657</u>

Traverse Bay Area Intermediate School District

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - INTERNAL SERVICE FUND

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	2008	2007
OPERATING REVENUES		
Charges to other funds	\$ 241,204	\$ 400,803
Employee contributions	17,277	14,598
Total operating revenues	258,481	415,401
OPERATING EXPENSES		
Instruction	117,429	118,346
Support Services	261,375	276,141
Total operating expenses	378,804	394,487
Operating income	(120,323)	20,914
NONOPERATING REVENUES (EXPENSES)		
Interest	61,160	86,473
Bank charges	(615)	(1,516)
Nonoperating revenues - net	60,545	84,957
CHANGES IN NET ASSETS	(59,778)	105,871
Net assets, beginning of year	931,602	825,731
Net assets, end of year	\$ 871,824	\$ 931,602

Traverse Bay Area Intermediate School District

STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUND

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Charges to other funds - compensated absences	\$ 49,716	\$ 63,873
Charges to other funds - insurance	191,488	336,930
Employee contributions	17,277	14,598
Cash paid to service provider	(19,946)	(16,639)
Cash paid to employees for insurance claims	(339,127)	(388,024)
Cash flows provided by operating activities	(100,592)	10,738
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase of investments	(114,955)	(956,496)
Interest earnings	61,160	86,473
Bank charges	(615)	(1,516)
Cash flows used by investing activities	(54,410)	(871,539)
Net decrease in cash and cash equivalents	(155,002)	(860,801)
CASH AND CASH EQUIVALENTS, beginning of year	<u>408,632</u>	<u>1,269,433</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 253,630</u>	<u>\$ 408,632</u>
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ (120,323)	\$ 20,914
Adjustments		
Increase (decrease) in accounts payable	(3,343)	1,213
Increase (decrease) in long-term liabilities	23,074	(11,389)
Net cash (used) provided by operating activities	<u>\$ (100,592)</u>	<u>\$ 10,738</u>

The accompanying notes are an integral part of these financial statements.

Traverse Bay Area Intermediate School District

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

(With comparative totals for June 30, 2007)

	<u>Agency Funds</u>	
	<u>2008</u>	<u>2007</u>
ASSETS		
Cash	\$ 98,068	\$ 96,711
Investments	<u>167,187</u>	<u>160,359</u>
Total assets	<u>\$ 265,255</u>	<u>\$ 257,070</u>
LIABILITIES		
Due to pupil activities	<u>\$ 265,255</u>	<u>\$ 257,070</u>

Traverse Bay Area Intermediate School District

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of Traverse Bay Area Intermediate School District are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2008.

The Financial Reporting Entity

Traverse Bay Area Intermediate School District's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal governmental sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncements, student, parent and teacher organizations are not included, except to the extent that the schools hold assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and School District general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures. Internal Service Funds are combined and the totals are presented in a single column on the face of the proprietary funds statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The School District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as needed.

Fund Types and Major Funds

Activities in Major Funds

The General Education Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The Michigan Works Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for various career enhancement related programs.

The Special Education Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special education programs.

The Vocational Education Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for various career and technical education related programs.

The Capital Projects Fund #2 is used to account for financial resources to be used for classroom construction and renovations.

The Capital Projects Fund #6 is used to account for financial resources to be used for ongoing groundwater remediation.

Activities in Non-Major Funds

The School Food Service Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for the hot lunch program.

The Child Care Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for the daycare of children.

The Capital Projects Fund #1 is used to account for financial resources to be used for School District projects.

Internal Service Fund

The Employee Benefits Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for compensated absences and dental and optical benefits.

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the School District in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Student Activities Accounts and Memorial Funds are accounted for as Agency Funds.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Investments

The School District reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as expenditure at the time individual inventory items are used.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

	<u>Years</u>
Buildings	50
Improvements, other than buildings	20-25
Vehicles	7-15
Furniture, machinery and equipment	3-20

Long-Term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

The governmental fund financial statements report reserved fund balance for various Board designations.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Environmental Remediation and Compliance

Environmental costs are generally expensed or capitalized when appropriate. Expenditures that relate to existing conditions caused by past operations, which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded in the statement of net assets when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated.

Environmental expense consists of current environmental compliance costs plus increases/less decreases in the accrued environmental costs liability. Current environmental compliance costs include maintenance and operation of pollution control facilities, cost of ongoing monitoring programs and pollution prevention related to current activities.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Prior Year Comparative Totals and Changes in Presentation

Prior year amounts have been extracted from previously issued financial statements and do not provide a complete presentation. They are included here for comparative analysis only. Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. He does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated.

NOTE C - CASH AND INVESTMENTS

At June 30, 2008, the School District's cash and investments include the following:

	<u>Balance Sheet Classification</u>		<u>Total</u>
	<u>Cash and Equivalents</u>	<u>Investments</u>	
Bank deposits and cash on hand	\$ 2,418,796	\$ -	\$ 2,418,796
CD and Money Market deposits	10,111,269	12,429,887	22,541,156
Investment pools	<u>-</u>	<u>7,730,022</u>	<u>7,730,022</u>
	<u>\$12,530,065</u>	<u>\$20,159,909</u>	<u>\$32,689,974</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CASH AND INVESTMENTS - Continued

Custodial Credit Risk - Deposits

In the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$31,988,053 of the School District's bank balance of \$32,888,053 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

<u>Investment Type</u>	<u>Investment Maturities (in years) Market Value</u>				
	<u>Fair Value</u>	<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Money Market deposits	<u>\$12,429,887</u>	<u>\$12,429,887</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Investment pools	<u>\$ 7,730,022</u>	<u>\$ 7,730,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District has no investment policy that would further limit its investment choices. The School District's investment in the MILAF investment pool was rated AAAM by Standard and Poor's.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$.1981, \$2.0000 and \$.7353 per \$1,000 of equalized homestead and non-homestead property value in the School District of \$9,420,513,108 was levied for general operating, special education and vocational education purposes, respectively.

Intergovernmental Receivables and Deferred Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2008 are as follows:

Due from the State of Michigan	
State Aid	\$ 2,020,308
Due from townships - property taxes	131,456
Due from Federal grants	1,219,841
Other receivables	<u>566,467</u>
	<u>\$ 3,938,072</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Transfers/ Reclassification/ Dispositions</u>	<u>June 30, 2008</u>
Building and improvements	\$14,851,537	\$ 140,644	\$(806,976)	\$14,185,205
Furniture and equipment	1,516,121	291,331	(290,566)	1,516,886
Buses and vehicles	<u>454,161</u>	<u>67,037</u>	<u>455,457</u>	<u>976,655</u>
Total depreciable assets	16,821,819	499,012	(642,085)	16,678,746
Less accumulated depreciation	(8,225,454)	(665,085)	305,642	(8,584,897)
Land	<u>108,543</u>	<u>-</u>	<u>-</u>	<u>108,543</u>
Total capital assets, net	<u>\$ 8,704,908</u>	<u>\$(166,073)</u>	<u>\$(336,443)</u>	<u>\$ 8,202,392</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$665,085</u>
-------------	------------------

NOTE F - LONG-TERM DEBT

Changes in long-term debt during the year ended June 30, 2008 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
School Improvement Bonds	\$1,233,870	\$ -	\$ -	\$1,233,870	\$116,297
Accumulated leave liability	<u>761,730</u>	<u>39,363</u>	<u>-</u>	<u>801,093</u>	<u>-</u>
Long-term debt at June 30, 2008	<u>\$1,995,600</u>	<u>\$39,363</u>	<u>\$ -</u>	<u>\$2,034,963</u>	<u>\$116,297</u>

Payments on general obligation bonds are made by the Debt Service Fund. The accumulated leave liability will be liquidated primarily by the Michigan Works Fund.

At June 30, 2008, the School District's long-term debt consisted of the following:

School Improvement Bonds Payable

1998 School Improvement Bonds payable in annual installments of \$116,297 to \$721,981, plus interest at an effective rate of 4.76%, with final payment due May 15, 2013. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. Should the State legislature fail to appropriate these funds, the School District is not liable for repayment of these bonds.

\$1,233,870

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - LONG-TERM DEBT - Continued

Accrued Expenses

Terminal leave pay for accumulated sick leave owed to employees who have been employed by the School District for specified periods of time and are qualified for retirement under the Michigan Public School Employees Retirement System.

\$ 801,093

Total debt

2,034,963

Less current portion

(116,297)

Total long-term debt

\$1,918,666

Total annual requirements to amortize bonds as of June 30, 2008, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 116,297	\$ 30,450
2010	121,828	24,912
2011	721,981	263,964
2012	133,700	13,034
2013	<u>140,064</u>	<u>6,669</u>
Totals	<u>\$1,233,870</u>	<u>\$339,029</u>

The accrued expenses for terminal leave pay were not included in the above amortization schedule because it is unknown when the employees will be receiving the payments.

NOTE G - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - RISK MANAGEMENT - Continued

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as "due to/from other funds" [(i.e., the current portion of interfund loans or "advances to/from other funds")(i.e., the non-current portion of interfund loans)].

Balances to which a fiduciary fund is a party are treated as "external" receivables and payables substantially reported as wages and benefits payable (retirement benefits).

Interfund receivables and payables as reported in the governmental fund financial statements at June 30, 2008 are as follows:

<u>Interfund Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Special Education Fund	\$ 25,000	\$ -
Vocational Education Fund	250,000	-
Capital Projects Fund #2	-	25,000
Capital Projects Fund #6	-	<u>250,000</u>
	<u>\$275,000</u>	<u>\$275,000</u>

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY - continued

The following schedule reports transfers and payments within the reporting entity:

Transfers From	Transfers To			Capital	Capital	Total
	General Education	Michigan Works	Special Education	Projects Fund #2	Projects Fund #6	
General Education	\$ -	\$351,465	\$208,967	\$ -	\$ -	\$ 560,432
Michigan Works	250,020	-	-	-	-	250,020
Special Education	884,748	-	-	1,400,000	-	2,284,748
Vocational Education	326,682	-	-	-	611,196	937,878
Capital Projects Fund #1	891,092	-	-	-	-	891,092
	<u>\$2,352,542</u>	<u>\$351,465</u>	<u>\$208,967</u>	<u>\$1,400,000</u>	<u>\$611,196</u>	<u>\$4,924,170</u>

NOTE I - PENSION PLAN

Plan Description

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget Office of Retirement Services ("ORS"). MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to basic plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103 or on the State of Michigan's website at www.michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3.0% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the plan; plan members who participate in MIP-Plus, starting July 1, 2008, are required to contribute 3.0% to 6.4% of their annual covered salary; and the School District is required to contribute at an actuarially determined rate using the individual entry age actuarial cost method. The rate was 17.74% for July 1, 2007 through September 30, 2007 and 16.72% for October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the School District are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$3,744,439, \$3,675,800 and \$3,235,139, respectively, equal to the required contribution for each year.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE I - PENSION PLAN - Continued

Post Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE J - COMMITMENTS AND CONTINGENCIES

Terminal/Sick Leave

There is no provision in these financial statements for terminal/sick leave payable to employees who do not presently meet age and service requirements, because the amount ultimately payable is not subject to estimation.

Medicaid Reserve

The School District has accrued a liability of \$1,718,483 for future charge backs to the Medicaid Program and/or due to local districts.

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Unemployment Liability

The School District accrues a liability for future unemployment claims. The accrual contains an estimate for future unemployment claims from employees laid off as of June 30, 2008, plus an estimate for future unemployment claims from anticipated future layoffs of employees. As of June 30, 2008, the unemployment liability accrual was \$254,500.

Environmental Matters

The School District has been designated a potentially responsible party ("PRP") by the Michigan Department of Environmental Quality ("MDEQ"). Property presently owned by the School District is alleged to be the source of soil, groundwater and surface water contamination. The contamination alleged by the MDEQ is the result of past hazardous substance disposal practices by a previous property owner. However, because of Michigan Act 307, in effect from the early 1980's to 1994, the School District is liable for a portion of the clean up at the site.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE J - COMMITMENTS AND CONTINGENCIES -continued

At the School District's Career Tech Center ("CTC"), the MDEQ alleges that the groundwater and an adjacent creek are showing levels of contaminants that are unsafe. At the request of the MDEQ, several studies of this situation have been conducted and significant steps have been taken toward remediation. These steps included the hookup of several residences to city water.

The School District is responsible for 40% of the remediation costs. Of this 40%, the School District maintains insurance which could potentially cover up to 50% of the School District's costs. The remaining 60% is the responsibility of the previous owners of the CTC property.

The School District's future costs are estimated to be in the range of \$6 million. A remediation action plan ("RAP") has been submitted to MDEQ. The School District is awaiting further instructions from MDEQ as of the date of this writing. As of June 30, 2008, \$6 million has been accrued in the statement of net assets relative to this liability. Management has designated approximately \$3.3 million in the Capital Projects #6 Fund, as described in Note A, for future costs in this matter. The exact amount needed has not been determined.

The School District's portion of environmental expense consisted of cash expenses for ongoing operation study and monitoring of environmental concerns totaling approximately \$302,000 and \$261,000 for the years ended June 30, 2008 and 2007, respectively.

NOTE K - MEDICAID OUTREACH DEFERRED REVENUE

During the year ended June 30, 2008, Medicaid Outreach revenue received totaled \$212,392. A portion of these proceeds equivalent to local district fees and indirect costs was recognized by TBAISD as other revenue received. The remaining portion, \$188,242 was deferred, bringing the total Medicaid Outreach liability to \$1,718,483. No distributions have been made to the local districts during the year ended June 30, 2008. In the event the State of Michigan set aside funds are insufficient to repay Medicaid Outreach funds, these funds will be available to repay any Medicaid Outreach liabilities of the School District and local school districts.

REQUIRED SUPPLEMENTARY FINANCIAL INFORMATION

Traverse Bay Area Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL EDUCATION FUND

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	Budgeted Amounts		Actual (GAAP Basis)	
	Original	Final	2008	2007
Revenues				
Local sources	\$2,602,252	\$2,596,601	\$ 2,563,630	\$ 2,760,166
State program revenues	2,984,958	3,113,823	3,077,810	3,019,990
Federal program revenues	285,727	611,303	466,085	298,827
Total revenues	<u>5,872,937</u>	<u>6,321,727</u>	<u>6,107,525</u>	<u>6,078,983</u>
Expenditures				
Instruction expense				
Basic program	19,920	11,247	11,198	62,703
Adult and continuing	180,667	163,201	163,201	183,785
Support Services				
Pupil	-	-	-	89,296
Instructional staff	2,591,009	2,227,717	1,983,825	2,385,918
General administration	459,744	449,442	433,401	396,482
School administration	3,242	-	-	2,623
Business	747,732	636,846	623,533	663,193
Operation and maintenance	264,638	345,799	285,560	282,353
Central	1,260,513	1,338,972	1,310,512	1,123,236
Other support services	-	13,438	-	-
Community Services	41,042	52,352	36,742	71,051
Payments to other governmental agencies and facility acquisitions				
Payments to other governmental agencies	1,594,487	2,788,155	2,692,764	1,669,068
Facility acquisitions	3,883	162,192	150,218	35,324
Total expenditures	<u>7,166,877</u>	<u>8,189,361</u>	<u>7,690,954</u>	<u>6,965,032</u>
REVENUES UNDER EXPENDITURES	<u>(1,293,940)</u>	<u>(1,867,634)</u>	<u>(1,583,429)</u>	<u>(886,049)</u>
Other financing sources (uses)				
Operating transfers in	1,559,648	2,352,542	2,352,542	1,526,801
Operating transfers out	<u>(609,124)</u>	<u>(560,432)</u>	<u>(560,432)</u>	<u>(566,472)</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>(343,416)</u>	<u>(75,524)</u>	<u>208,681</u>	<u>74,280</u>
Fund balance, beginning of year	<u>3,038,805</u>	<u>3,038,805</u>	<u>3,038,805</u>	<u>2,964,525</u>
Fund balance, end of year	<u>\$2,695,389</u>	<u>\$2,963,281</u>	<u>\$ 3,247,486</u>	<u>\$ 3,038,805</u>

Traverse Bay Area Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE MICHIGAN WORKS FUND

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	Budgeted Amounts		Actual (GAAP Basis)	
	Original	Final	2008	2007
Revenues				
Local sources	\$ 331,792	\$ 385,992	\$ 274,269	\$ 361,563
State program revenues	364,924	635,212	595,780	490,128
Federal program revenues	5,459,421	6,237,143	6,178,556	5,677,430
Total revenues	6,156,137	7,258,347	7,048,605	6,529,121
Expenditures				
Instruction expense				
Basic program	226,086	185,758	185,756	163,837
Added needs	393,441	322,118	313,270	314,371
Adult and continuing	1,010,328	1,769,009	1,690,220	1,257,008
Support Services				
Instructional staff	118,544	138,289	123,340	139,134
General administration	6,500	6,560	6,374	7,125
School administration	2,500	2,500	550	1,200
Business	3,000	3,700	3,013	2,318
Operation and maintenance	812,653	837,053	832,834	840,433
Pupil transportation	116,000	161,396	157,038	115,749
Central	15,445	19,755	19,067	20,915
Community Services	3,637,349	3,824,196	3,758,904	3,718,635
Payments to other governmental agencies and facility acquisitions				
Payments to other governmental agencies	-	-	-	2,696
Facility acquisitions	-	-	-	20,289
Total expenditures	6,341,846	7,270,334	7,090,366	6,603,710
REVENUES UNDER EXPENDITURES	(185,709)	(11,987)	(41,761)	(74,589)
Other financing sources (uses)				
Operating transfers in	373,838	330,020	351,465	357,505
Operating transfers out	(253,587)	(250,254)	(250,020)	(250,530)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(65,458)	67,779	59,684	32,386
Fund balance, beginning of year	655,991	655,991	655,991	623,605
Fund balance, end of year	<u>\$ 590,533</u>	<u>\$ 723,770</u>	<u>\$ 715,675</u>	<u>\$ 655,991</u>

Traverse Bay Area Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL EDUCATION FUND

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	Budgeted Amounts		Actual (GAAP Basis)	
	Original	Final	2008	2007
Revenues				
Local sources	\$19,973,989	\$21,602,234	\$21,575,302	\$20,027,048
Intermediate sources	-	15,000	15,000	-
State program revenues	7,322,345	7,834,371	7,833,979	7,542,740
Federal program revenues	5,621,728	5,973,136	5,885,631	5,448,087
Total revenues	32,918,062	35,424,741	35,309,912	33,017,875
Expenditures				
Instruction expense				
Added needs	8,268,123	7,996,058	7,793,106	7,343,178
Support Services				
Pupil	14,687,478	14,648,247	14,439,671	13,395,175
Instructional staff	3,533,139	3,611,305	3,507,140	3,532,202
General administration	211,844	369,551	337,501	164,190
Business	428,585	442,438	406,145	387,450
Operation and maintenance	1,056,133	1,109,228	1,058,645	968,608
Pupil transportation	2,142,746	1,749,748	1,706,213	90,037
Central	214,991	256,436	228,804	194,913
Other	7,650	4,539	2,472	4,907
Community Services	112,146	123,292	123,292	112,211
Payments to other governmental agencies and facility acquisitions				
Payments to other governmental agencies	2,605,567	3,159,614	3,153,720	3,936,366
Facility acquisitions	105,000	38,210	38,210	413,150
Total expenditures	33,373,402	33,508,666	32,794,919	30,542,387
REVENUES (UNDER) OVER EXPENDITURES	(455,340)	1,916,075	2,514,993	2,475,488
Other financing sources (uses)				
Operating transfers in	208,967	208,967	208,967	208,967
Operating transfers out	(951,876)	(2,284,748)	(2,284,748)	(1,903,383)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(1,198,249)	(159,706)	439,212	781,072
Fund balance, beginning of year	10,037,515	10,037,515	10,037,515	9,256,443
Fund balance, end of year	8,839,266	9,877,809	10,476,727	10,037,515
Less reserved fund balance	-	-	-	2,480,745
Fund balance available to appropriate	\$ 8,839,266	\$ 9,877,809	\$10,476,727	\$ 7,556,770

Traverse Bay Area Intermediate School District

BUDGETARY COMPARISON SCHEDULE FOR THE VOCATIONAL EDUCATION FUND

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	Budgeted Amounts		Actual (GAAP Basis)	
	Original	Final	2008	2007
Revenues				
Local sources	\$7,298,774	\$7,479,267	\$ 7,459,108	\$ 6,852,664
State program revenues	608,067	604,341	599,943	654,365
Federal program revenues	443,598	444,198	444,048	441,295
Total revenues	8,350,439	8,527,806	8,503,099	7,948,324
Expenditures				
Instruction expense				
Added needs	3,622,493	3,754,639	3,574,325	3,441,715
Support Services				
Pupil	893,862	824,258	802,416	829,666
Instructional staff	529,536	531,367	524,399	480,804
General administration	137,858	122,470	116,065	64,268
School administration	532,025	529,788	527,091	504,521
Business	121,474	140,598	139,293	122,154
Operation and maintenance	885,791	890,966	812,436	811,412
Transportation	-	3,121	3,030	-
Central	16,432	36,990	21,645	12,455
Other	34,426	35,255	32,687	32,021
Community Services	40,821	48,129	30,122	24,258
Payments to other governmental agencies and facility acquisitions				
Payments to other governmental agencies	186,213	203,417	181,910	178,581
Facility acquisitions	169,999	203,222	178,515	245,220
Total expenditures	7,170,930	7,324,220	6,943,934	6,747,075
REVENUES OVER EXPENDITURES	1,179,509	1,203,586	1,559,165	1,201,249
Other financing uses				
Operating transfers out	(1,154,185)	(937,878)	(937,878)	(1,442,888)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	25,324	265,708	621,287	(241,639)
Fund balance, beginning of year	2,624,073	2,642,073	2,642,073	2,883,712
Fund balance, end of year	<u>\$2,649,397</u>	<u>\$2,907,781</u>	<u>\$ 3,263,360</u>	<u>\$ 2,642,073</u>

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Traverse Bay Area Intermediate School District

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

June 30, 2008

(With comparative totals for June 30, 2007)

	<u>Special Revenue Funds</u>		<u>Capital Projects Fund - #1</u>	<u>Total Other Governmental Funds</u>	
	<u>School Food Service</u>	<u>Child Care</u>		<u>2008</u>	<u>2007</u>
ASSETS					
Cash and cash equivalents	\$ 4,797	\$ 11,370	\$ 7,163	\$ 23,330	\$ 252,561
Investments	-	-	210	210	619,142
Other receivables	19	468	-	487	9,342
Total assets	<u>\$ 4,816</u>	<u>\$ 11,838</u>	<u>\$ 7,373</u>	<u>\$ 24,027</u>	<u>\$ 881,045</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	<u>\$ 1,826</u>	<u>\$ 11,838</u>	<u>\$ -</u>	<u>\$ 13,664</u>	<u>\$ 22,098</u>
FUND BALANCES					
Unreserved					
School Food Service Fund	2,990	-	-	2,990	1,515
Capital Projects Funds	<u>-</u>	<u>-</u>	<u>7,373</u>	<u>7,373</u>	<u>857,432</u>
Total fund balances	<u>2,990</u>	<u>-</u>	<u>7,373</u>	<u>10,363</u>	<u>858,947</u>
Total liabilities and fund balances	<u>\$ 4,816</u>	<u>\$ 11,838</u>	<u>\$ 7,373</u>	<u>\$ 24,027</u>	<u>\$ 881,045</u>

Traverse Bay Area Intermediate School District

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS

Year Ended June 30, 2008

(With comparative totals for June 30, 2007)

	Special Revenue Funds		Capital	Total Other	
	School	Child	Projects	Governmental Funds	
	Food	Care	Fund - #1	2008	2007
	Service				
Revenues					
Interest	\$ 115	\$ -	\$ 37,208	\$ 37,323	\$ 47,982
Other	92,007	159,174	9,271	260,452	302,997
Total revenues	92,122	159,174	46,479	297,775	350,979
Expenditures					
Support Services	-	-	5,446	5,446	14,351
Child care	-	159,174	-	159,174	286,896
Food Service	90,647	-	-	90,647	15,995
Total expenditures	90,647	159,174	5,446	255,267	317,242
EXCESS OF REVENUES OVER EXPENDITURES	1,475	-	41,033	42,508	33,737
Other financing uses					
Operating transfers out	-	-	(891,092)	(891,092)	-
REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	1,475	-	(850,059)	(848,584)	33,737
Fund balance, beginning of year	1,515	-	857,432	858,947	825,210
Fund balance, end of year	\$ 2,990	\$ -	\$ 7,373	\$ 10,363	\$ 858,947

FEDERAL PROGRAMS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Board of Education
Traverse Bay Area Intermediate School District

Compliance

We have audited the compliance of the *Traverse Bay Area Intermediate School District* (the “School District”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. The School District’s major Federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the School District’s management. Our responsibility is to express an opinion on the School District’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District’s compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

September 29, 2008



Business and Financial Advisors
Our clients' success – our business

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Traverse Bay Area Intermediate School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Traverse Bay Area Intermediate School District* (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The report is intended solely for the information and use of the Board of Education, management, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

September 29, 2008

TRAVERSE BAY AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For fiscal year ended June 30, 2008

GRANT NAME	Project Number	CFDA Number	Grant Amount	Accrued (Deferred) Revenue 6/30/2007	Prior Years Expenditures	Current Year Cash Receipts	Current Year Expenditures	Adjustment	Accrued (Deferred) Revenue 6/30/2008
U.S. Department of Education									
Passed Through Michigan Department of Education									
Title V Innovative Education 06/07	070250 0607	84.298	\$ 11,779	\$ (3)	\$ 8,432	\$ 3,344	\$ 3,347	\$ -	\$ -
Title V Innovative Education 07/08	080250 0708	84.298	11,808	-	-	7,489	8,989	-	1,500
			23,587	(3)	8,432	10,833	12,336	-	1,500
Title II Innovative Education 07/08	80520 0708	84.367	1,584	-	-	1,050	1,584	-	534
Title II, Part D 07/08	084240 PRO 4	84.318	220,000	-	-	126,000	159,000	-	33,000
Drug Free Formula 06/07	072860 0708	84.186	25,823	59	20,359	5,523	5,464	-	-
Drug Free Formula 07/08	082860 0708	84.186	26,376	-	-	20,668	23,420	-	2,752
			52,199	59	20,359	26,191	28,884	-	2,752
Teachers On Loan - Schlitt	072920-0607C	84.357	118,791	18,239	107,037	18,239	-	-	-
Teachers On Loan - Hammond	072910 0607C	84.357	117,614	18,239	106,339	18,239	-	-	-
			236,405	36,478	213,376	36,478	-	-	-
PL 94-142 Flow Through 05/07 (year 2)	060450 0506	84.027A	4,802,730	64,309	930,704	64,309	-	-	-
PL 94-142 Flow Through 06/08 (year 1)	070450 0607	84.027A	3,980,292	246,149	3,980,292	246,149	-	-	-
Preschool Incentive 07/09	80460 0708	84.173A	169,643	-	-	169,643	169,643	-	-
State Initiated/Competitive EOSD 06/07	070480 EOSD	84.027A	50,000	2,808	50,000	2,808	-	-	-
IDEA, Part B EOSD 07/08	080480 EOSD	84.027	50,000	-	-	44,657	50,000	-	5,343
IDEA Flowthrough 07/08 (year 1)	080450 0708	84.027A	4,935,008	-	-	3,701,358	4,481,084	(20)	779,706
IDEA Flowthrough 06/08 (year 2)	070450 0607	84.027A	862,467	-	-	823,190	862,468	-	39,278
IDEA, Part B SPSR 07/08	080440 0708	84.027	4,500	-	-	2,250	3,089	-	839
Transition 06/07	070490 TS	84.027	90,000	11,636	89,996	11,636	-	-	-
Transition 07/08	080490 TS	84.027	70,000	-	-	35,000	70,000	-	35,000
			15,014,640	324,902	5,050,992	5,101,000	5,636,284	(20)	860,166
Early On-Infant/Toddler 06/08 (year 1)	071340 190	84.181A	207,249	13,099	207,249	13,099	-	-	-
Early On-Infant/Toddler 07/08	081340 190	84.181A	201,069	-	-	164,512	192,969	545	29,002
Early On-Infant/Toddler 06/08 (year 2)	071340 190	84.181A	6,725	-	-	6,725	6,725	-	-
			415,043	13,099	207,249	184,336	199,694	545	29,002
Vocational Ed - Tech Prep 06/07	073540 7014-5	84.243A	152,644	4,058	152,568	4,058	-	-	-
Vocational Ed - Tech Prep 07/08	083540 8014-05	84.243A	149,303	-	-	61,276	148,236	-	86,960
			301,947	4,058	152,568	65,334	148,236	-	86,960
TOTAL MICHIGAN DEPARTMENT OF EDUCATION			16,265,405	378,593	5,652,976	5,551,222	6,186,018	525	1,013,914

TRAVERSE BAY AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For fiscal year ended June 30, 2008

GRANT NAME	Project Number	CFDA Number	Grant Amount	Accrued (Deferred) Revenue 6/30/2007	Prior Years Expenditures	Current Year Cash Receipts	Current Year Expenditures	Adjustment	Accrued (Deferred) Revenue 6/30/2008
Passed through Onaway Public Schools Teachers On Loan - Schlitt		84.357	\$ 112,347	\$ -	\$ -	\$ 112,347	\$ 112,342	\$ 5	\$ -
Michigan Dept. of Labor & Economic Growth Passed through the Northwest Michigan Council of Governments									
Adult Education & Family Literacy	22-PY06-AFL	84.002	176,040	(19,305)	149,445	-	19,305	-	-
Adult Education & Family Literacy	22-PY07-AFL	84.002	147,857	-	-	109,623	145,331	-	35,708
			323,897	(19,305)	149,445	109,623	164,636	-	35,708
Passed through Wexford/Missaukee ISD Vocational Ed - Regional Perkins 07/08	9205	84.048A	293,695	-	-	293,695	293,695	-	-
TOTAL U.S. DEPARTMENT OF EDUCATION			16,995,344	359,288	5,802,421	6,066,887	6,756,691	530	1,049,622
U.S. Department of Health & Human Services									
Passed through Northwest Michigan Human Services HeadStart	A 065CH4182/37	93.600	29,974	1,514	29,974	7,744	6,230	-	-
Passed through Michigan Department of Community Health Transportation		93.778*	-	-	-	43,374	43,374	-	-
Michigan Dept. of Labor & Economic Growth Passed through the Northwest Michigan Council of Governments									
Work First	22-FY07-01	93.558	946,210	(15,895)	803,830	212,656	228,551	-	-
JET TANF	22-FY08-01	93.558	1,088,978	-	-	844,401	801,535	-	(42,866)
			2,035,188	(15,895)	803,830	1,057,057	1,030,086	-	(42,866)
TOTAL U.S. DEPT OF HEATH AND HUMAN SERVICES			2,065,162	(14,381)	833,804	1,108,175	1,079,690	-	(42,866)
U.S. Department of Agriculture									
Passed through Michigan State University MNN Food Stamp Assistance		10.561	254,432	-	-	72,063	151,364	-	79,301

TRAVERSE BAY AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For fiscal year ended June 30, 2008

GRANT NAME	Project Number	CFDA Number	Grant Amount	Accrued (Deferred) Revenue 6/30/2007	Prior Years Expenditures	Current Year Cash Receipts	Current Year Expenditures	Adjustment	Accrued (Deferred) Revenue 6/30/2008
Michigan Dept. of Labor & Economic Growth Passed through the Northwest Michigan Council of Governments									
Food Stamp Employment and Training	22-FY07-01	10.561	\$ 69,365	\$ (2,434)	\$ 51,866	\$ 14,517	\$ 16,951	\$ -	\$ -
Food Stamp Employment and Training	22-FY08-01	10.561	<u>77,923</u>	<u>-</u>	<u>-</u>	<u>59,000</u>	<u>50,715</u>	<u>-</u>	<u>(8,285)</u>
TOTAL U.S. DEPT OF AGRICULTURE			<u>401,720</u>	<u>(2,434)</u>	<u>51,866</u>	<u>145,580</u>	<u>219,030</u>	<u>-</u>	<u>71,016</u>
U.S. Department of Labor									
Passed through West Shore Community College WIA Pilots, Demonstrations, & Research Projects		17.261	<u>4,264</u>	<u>-</u>	<u>-</u>	<u>3,407</u>	<u>4,116</u>	<u>-</u>	<u>709</u>
Michigan Dept. of Labor & Economic Growth Passed through the Northwest Michigan Council of Governments									
Trade Reform Act	22-FY07-01	17.245	372,687	(22,307)	109,468	240,907	263,214	-	-
Trade Reform Act	22-FY08-01	17.245	650,000	-	-	406,500	452,688	-	46,188
Wagner-Peyser Emp Service	22-PY06-01	17.207	391,782	5,044	394,544	5,044	-	-	-
Wagner-Peyser Emp Service	22-PY07-01	17.207	477,730	-	-	472,000	473,095	-	1,095
Workforce Investment Act - Youth	22-PY06-01	17.259	1,046,127	(7,187)	1,027,813	-	-	7,187	-
Workforce Investment Act - Youth	22-PY07-01	17.259	993,263	-	-	983,000	996,598	-	13,598
Workforce Investment Act - Adult	22-PY06-01	17.258	1,110,346	9,008	1,117,008	9,008	-	-	-
Workforce Investment Act - Adult	22-PY07-01	17.258	1,002,173	-	-	994,000	1,003,922	-	9,922
Workforce Investment Act - Dislocated	22-PY06-01	17.260	1,526,909	15,768	1,520,833	15,768	-	-	-
Workforce Investment Act - Dislocated	22-PY07-01	17.260	1,674,150	-	-	1,588,000	1,596,469	-	8,469
Workforce Investment Act Title I Statewide	22-PY06-01	17.258	85,059	6,368	85,368	6,368	-	-	-
Incumbent Worker Incentive	22-PY07-01	17.258	<u>132,105</u>	<u>-</u>	<u>-</u>	<u>124,000</u>	<u>126,066</u>	<u>-</u>	<u>2,066</u>
			<u>9,462,331</u>	<u>6,694</u>	<u>4,255,034</u>	<u>4,844,595</u>	<u>4,912,052</u>	<u>7,187</u>	<u>81,338</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>9,466,595</u>	<u>6,694</u>	<u>4,255,034</u>	<u>4,848,002</u>	<u>4,916,168</u>	<u>7,187</u>	<u>82,047</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 28,928,821</u>	<u>\$ 349,167</u>	<u>\$ 10,943,125</u>	<u>\$ 12,168,644</u>	<u>\$ 12,971,579</u>	<u>\$ 7,717</u>	<u>\$ 1,159,819</u>

See Notes to Schedule of Expenditures of Federal Awards

TRAVERSE BAY AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS
For fiscal year ended June 30, 2008

Program Title/Grant Number Subrecipient Name	CFDA Number	Subrecipient Award/Contract Amount	Due To (From) Subrecipient July 1, 2007	(Memo Only)	Subrecipient Current Year Expenditures	Current Year Cash Transferred To Subrecipient	Due To (From) Subrecipient June 30, 2008
				Prior Year Expenditures			
PreSchool							
080460/0708	81.027A						
Benzie Country Central School		\$ 21,316	\$ -	\$ -	\$ 21,316	\$ 21,316	\$ -
Buckley Community Schools		8,882	-	-	8,882	8,882	-
Elk Rapids Public Schools		13,323	-	-	13,323	13,323	-
Forest Area Community School		8,882	-	-	8,882	8,882	-
Kalkaska Public Schools		9,770	-	-	9,770	9,770	-
Kingsley Public Schools		15,099	-	-	15,099	15,099	-
Mancelona Public Schools		17,764	-	-	17,764	17,764	-
Suttons Bay Public Schools		888	-	-	888	888	-
Traverse City Area Public School		73,719	-	-	73,719	73,719	-
		169,643	-	-	169,643	169,643	-
Transition							
080490 TS	84.027						
Benzie Country Central School		323	-	-	323	323	-
Forest Area Community Schools		588	-	-	588	588	-
Glen Lake Community Schools		6,354	-	-	6,354	6,354	-
Grand Traverse Academy		581	-	-	581	581	-
Kalkaska Public Schools		506	-	-	506	506	-
Mancelona Public Schools		147	-	-	147	147	-
Suttons Bay Public Schools		185	-	-	185	185	-
Traverse City Area Public School		6,316	-	-	6,316	6,316	-
		15,000	-	-	15,000	15,000	-
Vocational Education -Tech Prep	84.243A						
Charlevoix-Emmet ISD		25,323	-	-	25,323	25,323	-
Ferris State University		10,000	-	-	10,000	10,000	-
North Central Michigan College		8,441	-	-	8,441	8,441	-
Northwestern Michigan College		21,462	-	-	21,462	21,462	-
Wexford-Missaukee ISD		19,690	-	-	19,690	19,690	-
		84,916	-	-	84,916	84,916	-
Total US Department of Education		269,559	-	-	269,559	269,559	-

See Notes to Schedule of Expenditures of Federal Awards.

TRAVERSE BAY AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS
For fiscal year ended June 30, 2008

Program Title/Grant Number Subrecipient Name	CFDA Number	Subrecipient Award/Contract Amount	Due To (From) Subrecipient July 1, 2007	(Memo Only)	Subrecipients Prior Year Expenditures	Subrecipient Current Year Expenditures	Current Year Cash Transferred To Subrecipient	Due To (From) Subrecipient June 30, 2008
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES								
MI Department of Community Health								
Medicaid-School Based Services/Transportation	93.778							
Bellaire Public Schools		\$ 725	\$ -	\$ -	\$ 725	\$ 725	\$ 725	\$ -
Benzie Public Schools		3,192	-	-	3,192	3,192	3,192	-
Buckley Community Schools		289	-	-	289	289	289	-
Elk Rapids Public Schools		1,612	-	-	1,612	1,612	1,612	-
Excelsior District #1		307	-	-	307	307	307	-
Forest Area Community Schools		2,108	-	-	2,108	2,108	2,108	-
Frankfort-Elberta Public Schools		940	-	-	940	940	940	-
Glen Lake Public Schools		1,009	-	-	1,009	1,009	1,009	-
Kalkaska Public Schools		4,581	-	-	4,581	4,581	4,581	-
Kingsley Area Schools		3,361	-	-	3,361	3,361	3,361	-
Mancelona Public Schools		3,080	-	-	3,080	3,080	3,080	-
Northport Public Schools		287	-	-	287	287	287	-
Suttons Bay Public Schools		629	-	-	629	629	629	-
Traverse City Area Public Schools		21,254	-	-	21,254	21,254	21,254	-
		43,374	-	-	43,374	43,374	43,374	-
Total U.S. Department Health & Human Services		\$ 43,374	\$ -	\$ -	\$ 43,374	\$ 43,374	\$ 43,374	\$ -

Traverse Bay Area Intermediate School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

- Note 1** The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete and accurate, and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Section Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.

The following amounts were included on the Grant Section Auditor's Report as cash payments, but the School District did not receive the funds until July 1, 2008. Therefore, the amounts were included in June 30, 2008 accounts receivable on the Schedule of Expenditures of Federal Awards:

070450 IDEA Flowthrough	\$ 39,278
080440 IDEA, Part B SPSR 07/08	839
080450 IDEA Flowthrough	731,421
080480 Enhancing Opportunities EOSD	5,343
080490 Transition	35,000
080520 Title II Innovative Education	534
081340 Early On-Infant/Toddler	22,134
082860 Drug Free Formula	2,724
083540 Vocational Ed -Tech Prep	50,373
084240 Title II, Part D	33,000

- Note 4** See Note K of the basic financial statement for explanation of Medicaid Outreach revenue.
- Note 5** Workforce Investment Act-Youth, CFDA#17.259 returned \$7,187 of prior year deferred revenue during the current fiscal year that is reported in the adjustment column. Also in the adjustment column are two amounts resulting from misclassified expenditures under IDEA Flowthrough, CFDA#84.027A and Early On-Infant/Toddler, CFDA#84.181A in the amounts of \$(20) and \$545, respectively. These misclassified expenditures did not result in a drawdown of funds, and will be adjusted before final expenditure reports are submitted at September 30, 2008. Teachers On Loan-Schlitt, CFDA#84.357 reported \$5 in the adjustment column due to a wages and benefits invoice rounding issue.

Traverse Bay Area Intermediate School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

June 30, 2008

Note 6 A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards and sources on the financial statements are as follows:

Federal expenditures per Schedule of	
Expenditures of Federal Awards	\$12,971,579
Payments in lieu of taxes and other adjustments	<u>2,741</u>
Federal sources per financial statements	<u>\$12,974,320</u>

Traverse Bay Area Intermediate School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2008

Current Year

Section 1 - Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Traverse Bay Area Intermediate School District.
2. There were no significant deficiencies in internal control reported as a result of the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the School District were disclosed during the audit.
4. The auditor's report does not disclose any significant deficiencies in internal control over major programs.
5. The auditor's report on compliance for the major Federal award programs for the School District expresses an unqualified opinion on all major Federal programs.
6. The Work First/TANF under CFDA # 93.558, Trade Reform Act under CFDA #17.245 and the Workforce Investment Act Programs under CFDA # 17.258, 17.259 and 17.260 are major programs.
7. The threshold used for distinguishing between Type A and Type B programs was \$389,147.
8. Traverse Bay Area Intermediate School District did qualify as a low-risk auditee.

Section 2 - Findings in Accordance with Generally Accepted Government Auditing Standards

No findings.

Prior Year

There were no findings in the previous fiscal year.



Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Traverse Bay Area Intermediate School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Traverse Bay Area Intermediate School District (the "School District") for the year ended June 30, 2008 and have issued our report thereon dated September 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated February 6, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

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Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement applicable to each of its major Federal programs for the purpose of expressing an opinion on the School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Internal Controls

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

We consider the following deficiencies to be a *material weakness* in internal controls:

None Noted

We consider the following deficiencies to be significant deficiencies in internal control:

None Noted

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on July 24, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Traverse Bay Area Intermediate School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Compensated Absence Estimates
Environmental Liability
Depreciation

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Risk Management
Commitments and Contingencies
Medicaid Outreach Deferred Revenue

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, there were no adjustments recorded as a result of our audit.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 29, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Traverse Bay Area Intermediate School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Traverse Bay Area Intermediate School District and is not intended to be and should not be used by anyone other than these specified parties.

To the Board of Education
Traverse Bay Area Intermediate School District
Page 5

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Dennis, Gartland & Niergarth

September 29, 2008

TRAVERSE BAY INTERMEDIATE SCHOOL DISTRICT

6/30/08

Summary of Audit Differences
Governmental Activities

Description (Nature) of Audit Difference Scope = 1,000	Cause	Workpaper Ref.	Amount	Total Assets Over (Under) stated	Total Liabilities Over (Under) stated	Equity Over (Under) stated	Profit (Loss) Over (Under) stated
Accrued interest on Durant Bond not recorded	Not recorded at 6/30/08	4505	3,754		(3,754)		3,754
Unaccrued leave liability	Recorded in FYE 6/30/09	4311	64,990		(64,990)		64,990
Amounts improperly excluded from A/P	Leelanau County AP not recorded	4003	39,546		(39,546)		39,546
Amounts improperly excluded from A/P	ENSR Corporation AP not recorded	4003	95,714		(95,714)		95,714
Amounts Improperly excluded from A/R	Resolute Ins AR not recorded	4003	47,857	(47,857)			(47,857)
General account bank reconciling adjustments	Posted in July	2003	25,066	(25,066)			(25,066)
Total			276,928	(72,923)	(204,004)	-	131,081
Less Audit Adjustments Subsequently Booked:							
Net Unadjusted Audit Differences-This Year			276,928	(72,923)	(204,004)	-	131,081
Effect of Unadjusted Audit Differences-Prior Years							
Unaccrued leave liability		4311	51,824				(51,824)
Net Audit Differences				(72,923)	(204,004)	-	79,257
Financial Statement Caption Totals				44,580,332	17,302,430	27,277,902	(1,430,085)
Net Audit Differences as % of F/S Captions				-0.16%	-1.18%	0.00%	-5.54%

TRAVERSE BAY INTERMEDIATE SCHOOL DISTRICT

6/30/08

Summary of Audit Differences
General Education Fund

Description (Nature) of Audit Difference	Cause	Workpaper Ref.	Amount	Total Assets Over (Under) stated	Total Liabilities Over (Under) stated	Equity Over (Under) stated	Profit (Loss) Over (Under) stated
Scope = 1,000							
General account bank reconciling adjustments	Posted in July	2003	25,066	(25,066)			(25,066)
Total			25,066	(25,066)	-	-	(25,066)
Less Audit Adjustments Subsequently Booked:							
Net Unadjusted Audit Differences-This Year			25,066	(25,066)	-	-	(25,066)
Effect of Unadjusted Audit Differences-Prior Years							
Net Audit Differences				(25,066)	-	-	(25,066)
Financial Statement Caption Totals				5,295,941	2,048,455	3,247,486	208,681
Net Audit Differences as % of F/S Captions				-0.47%	0.00%	0.00%	-12.01%

6/30/08

Description (Nature) of Audit Difference	Cause	Workpaper Ref.	Amount	Total Assets Over (Under) stated	Total Liabilities Over (Under) stated	Equity Over (Under) stated	Profit (Loss) Over (Under) stated
Scope = 1,000							
Amounts improperly excluded from A/P	Leelanau County AP not recorded	4003	39,546		(39,546)		39,546
Total			39,546	-	(39,546)	-	39,546
Less Audit Adjustments Subsequently Booked:							
Net Unadjusted Audit Differences-This Year			39,546	-	(39,546)	-	39,546
Effect of Unadjusted Audit Differences-Prior Years							
Net Audit Differences				-	(39,546)	-	39,546
Financial Statement Caption Totals				16,194,141	5,717,414	10,476,727	439,212
Net Audit Differences as % of F/S Captions				0.00%	-0.69%	0.00%	9.00%

6/30/08

Capital Projects Fund #6

Net Audit Differences